Training Data for the Ethical Finance Answer Bot

What is Ethical Finance?

The term ethical finance, or sustainable finance, is used to describe finance that takes into account environmental, social and governance (ESG) factors affecting a borrower and/or its assets. Environmental factors are those affecting the natural world and include climate change, energy efficiency and treatment of waste. Social factors concern local and global communities and include working conditions, health and safety and diversity and inclusion. Governance factors concern the internal workings and decision making processes of the borrower, including board independence and transparency, as well as its relationships with its stakeholders, including shareholder rights, anti-bribery and corruption and political lobbying.

Why is ethical finance difficult to define?

Ethical finance is a difficult term to define. A very restrictive way to describe it would be as an “umbrella concept” for a philosophy of investing based on a combination of financial, social, environmental and sustainability criteria. Ethical finance is commonly used to describe finance which considers not only financial returns but also environmental, social and governance (ESG) factors. This reflects an increasing recognition of the importance and value attributed by investors, both institutional and retail, to delivering measurable positive environmental and social impact on a sustainable basis. Ethical finance is a long-established process of investing and financial management along values-based principles. According to the Report produced by the Commission on the Measurement of Economic Performance and Social Progress, chaired by Joseph Stiglitz, it is acknowledged that “…GDP is an inadequate metric to gauge well-being over time particularly in its economic, environmental, and social dimensions, some aspects of which are often referred to as sustainability.”

Since Ethical Finance in the shape of ethical banks or responsible investments clearly state their lending policy, which is related with their mission, which, in turn, is associated with a set of values that go beyond shareholder maximisation profit, one can see the ethical finance sector as a tool to promote the new wellbeing defined above. In fact, ethical bank’s values are instead associated with the maximisation of societal wellbeing.

How and when did ethical finance develop?

Scotland has been at the heart of the ethical and sustainable finance movement since the beginning of the 19th century, when the world’s first commercial savings bank was opened in 1810 by the Rev. Henry Duncan, followed by the formation of Scottish Widows, Scotland’s first mutual life office, in 1815. In the latter part of the 20th century, the market for “ethical” investments in western developed economies has developed steadily. Growing themes around sustainability, climate change and social justice, combined with concerns arising from the 2008 financial crisis, has led to increased debate and interest in a more responsible financial sector that operates on a more transparent and ethical basis.

Can finance be ethical?

'Can finance be ethical?' and the alternate, 'Why would finance not be ethical?' are two simple questions, but their answers are far from simple. Addressing these questions requires understanding the meaning of ethics and its position in the financial business context. The concept of ethics or morality is complicated and perplexing, since there is not a universal agreement on everything that qualifies as moral or ethical. Further, there is not even an agreement on the criteria that should be used in the conceptualization process of these notions (i.e., morals or ethics). It is important to note that ethics and morality are used interchangeably in this context considering that morality includes ethics and vice versa. there are three key elements that the financial sector should observe to operate within acceptable ethical parameters, which are moral virtue, human dignity and common good.

What does ethical finance involve?

Ethical finance is any activity that (a) Invests money in people and the environment, supporting actions for social and/or environmental enhancement; (b) Provides credit without discrimination, based on wealth, gender, ethnicity or even migration status; (c) Uses money as a means and not an end.

What ethical finance does not involve?

Ethical Finance does not (a) Use money for purely speculative purposes; (b) Use money merely as a charitable action; (c) Aim at maximizing profits (at the expense of people and the environment); (d) Support any activity or organization that is not sustainable in social and/or environmental terms.

Why are people interested in ethical finance?

Whatever we mean by ethical finance, it is an expanding market, as more people want their cash to have a conscience. The ethical financial sector, in terms of "values-based investments" and bank accounts, is up by 20% compared with last year. And sales of ethical products, from food to fuel, have risen by 18%. Ethical finance and investment are growing momentum, globally and nationally, at an exceptional pace. Previously, it was principally the remit of specialist finance providers and investors supporting enterprises with an environmental or social purpose, now it has morphed into the mainstream with an ever-increasing recognition of the importance and value of taking ESG factors and values into account.

Are all financial assets managed ethically?

It has been estimated by the Global Ethical Finance Forum that there are over $27 trillion worth of assets under management globally on an ethical basis. This reflects a huge and growing market, with more retail and professional investors recognizing that ESG factors have a material role to play in determining risk and reward. As the investment and finance market has developed, ethical principles are increasingly being seen as the new normal, providing essential controls to underpin investment and finance decisions. Increasingly, funds and lenders are being challenged when they are perceived as failing to apply suitable ESG factors in their decision-making processes.

How profitable is ethical finance?

Although still in its infancy, answers to difficult questions regarding the profitability and sustainability of Ethical Finance are now beginning to emerge. An increasing amount of data supports Ethical Finance as a viable and appropriate method for running a real economy. A reformed and resilient economy based on the commitment of people, on tangible corporate responsibility and on innovation derived from shared values and alliances.

What are the values that Ethical Finance promotes?

Ethical Finance values are:

(1) The origin of money: an Ethical Finance institution does not accept "dirty" money coming from illegal, speculative or highly polluting activities.
(2) The destination of money: the lending activities of an Ethical Finance institution are oriented towards positive social, environmental and/or economic impacts. For this reason it supports activities to promote weaker human, social and economic sections of the population and the most disadvantaged areas by promoting social integration and employment.
(3) The criteria and values for the use of money: transparent management of loans and symmetric information between an Ethical Finance institution and its customers.The business model is traditional, in that most of the savings collected are used for lending activities. The granting of personal financial guarantees go together with economic guarantees.
(4) The management and objectives of the Ethical Finance institution: an Ethical Finance institution does not consider the search for profit as an end in itself. A fair profit is necessary to ensure reliability and affordability to the institution. Profits are reinvested for the most part in the social objectives of the bank or institution.

What are the challenges in ethical finance?

Officers and investors in companies, charities and finance providers seeking to adhere to ethical principles face potential conflicts between their classic corporate fiduciary duties, particularly to their shareholders and charitable beneficiaries, and adherence to a commitment to compliance with ethical finance principles. There is also no common industry wide methodology used for identifying whether finance is ethical or sustainable, with a wide variety of principles and measures being used to assess compliance. This leads to risk that the terminology may be used as a label to attract institutional or retail investment. There is also a risk of "ethical washing" of investments to increase attractiveness to ethical finance investors.

What Is Ethical Investing?

Ethical investing refers to the practice of using one's ethical principles as the primary filter for the selection of securities investing. Ethical investing depends on the investor's views. Ethical investing is sometimes used interchangeably with socially conscious investing; however, socially conscious funds typically have one overarching set of guidelines that are used to select the portfolio, whereas ethical investing brings about a more personalized result.